

December 2, 2009

The Honorable Barb Byrum  
Chairman, House Insurance Committee  
S1086 House Office Building  
Lansing, MI 48909-7514

**RE: Interested Party Testimony on Consumer Advocate Hollowell's Auto Insurance Reform Recommendations**

Dear Chairman Byrum,

Thank you for this opportunity to provide INTERESTED PARTY testimony on the legislative reform recommendations offered by Consumer Advocate Hollowell that addresses auto insurance in Michigan, HB 5627 – HB 5635.

Founded in 1895, the National Association of Mutual Insurance Companies is the largest, most diverse national insurance trade association in the United States. NAMIC represents the interests of its property/casualty insurance company members and their policyholders. NAMIC's membership includes farm mutual insurance companies, single-state and regional writers, and national insurers operating across North America. The more than 1,400 NAMIC members underwrite 41 percent of the automobile and homeowners insurance market and 31 percent of the business insurance market in the United States. NAMIC has 150 member companies writing business in Michigan, representing 40% of the overall P&C market, and 45% of the auto market.

NAMIC respectfully wishes to issue our opposition to the legislative proposals referenced above.

Our initial concern with such a wide reaching and impactful set of proposed measures is the speed with which they are being considered. The insurance industry, and independent experts as well as business leaders are able to give the committee a great body of information about:

- How insurance related issues similar to those referenced in Mr. Hollowell's proposals have been handled in other states and the outcomes and impacts of those measures in those states.
- The potential impact to Michigan's economy and job market and other unintended consequences that vast changes to the tools and business of the insurance industry are certain to cause.
- Scientifically recognized research and data about the true status of the insurance industry, its profits, and Michigan's position in that national landscape.

However, it is simply logistically impossible to physically get the experts here to you, with appropriate research material and an adequate level of understanding of the legislation proposed on only twelve to twenty four hours notice.

For that reason we would simply ask you to table the legislation and set a hearing date, preferably at least two weeks in advance, in order to give those parties which may aid the committee in their consideration adequate time to make travel arrangements and material development.

If the committee chooses to move forward with consideration of the legislation today or tomorrow NAMIC asks you to consider the following:

- According to the 2006/2007 auto insurance report released by the NAIC just yesterday (Dec. 1, 2009 at [http://www.naic.org/Releases/2009\\_docs/2006%202007\\_auto\\_insurance\\_report.htm](http://www.naic.org/Releases/2009_docs/2006%202007_auto_insurance_report.htm)), Michigan is listed 12<sup>th</sup> on the list of premium rates by district. However, Michigan is generally regarded as one of the top two states in terms of richness of benefit due to the no-fault with unlimited medical benefit system. Given that disparity of cost to benefit, reason would dictate that if Michigan citizens want lower rates it would require comparable reform to the no-fault system.
- Rates are ultimately under the scrutiny of the Insurance Commissioner. There is an entire body of science dedicated to assessing risk, setting actuarially sound rates to match the risk, and a process by which to implement those rates in a rigorous regulatory environment. To arbitrarily cast off that science in lieu of artificially reduced rates is a dangerous proposition. In fact, experience has shown us that artificially developed rating methods and restrictions on rates had the opposite effect of its intention. In states like New Jersey and Massachusetts, rate filing restrictions drove insurers from the market and kept rates high. In those states, they've recently opened the market to competition and have seen increased choice for consumers, more businesses moving into the state, and decreased rates. NAMIC would be happy to provide experts to offer you case studies and materials on this issue if given an opportunity at a later hearing date.
- Rating factors such as credit based insurance scoring, education, and occupation are some of the many tools that insurers use to assess a policyholder's risk. In some cases, the factors going into an insurance score may number in the hundreds. By regulating away these tools, which are proven to be accurate predictors of risk, insurance companies will have less certainty and more guessing which will lead to increased cost and therefore increased premium. Restricting factors forces consumers to subsidize the costs of high risk consumers, a cost to many for the benefit of a few. The bottom line is that these factors, as all scoring factors, are tools that keep insurance premiums as low as possible. In 2006, 67% of Oregon voters understood the value of these tools and voted down a ballot initiative to ban credit based insurance scoring.

There are 55,000 Michigan citizens employed by the insurance industry. At NAMIC, we are concerned not only for the fiscal health of the companies that they work for if these proposals are adopted, but also the millions of policyholders that they serve. These proposals will not fix the underlying problems triggering auto rates in Michigan. In our opinion, these proposals are likely to follow the example of New Jersey and Massachusetts and make rates escalate and business

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decline.

Please consider our request to delay final consideration of these measures by setting a hearing date that all interested parties have the time and opportunity to participate in so that you may make the most informed decisions for the Michigan economy.

Thank you very much for your time, and thank you for your service to Michigan citizens.

Sincerely,

Erin Collins

State Affairs Manager